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C O N F I D E N T I A L SECTION 01 OF 02 TEGUCIGALPA 002426

SIPDIS

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SUBJECT: CORRECTED COPY: HONDURAS CASHIERS ITS TAX MAN;  
FINANCE MINISTER,S COMMENTS ON THE REVENUE SERVICE SHAKE-UP  
AND REORGANIZATION

REF: A. (A) TEGUCIGALPA 2289

[1](#)B. (B) TEGUCIGALPA 1741

Classified By: Classified By: Economic Chief Patrick Dunn for reasons 1  
.4 (b) and (d).

[1](#)1. (C) Summary: On October 15, it was reported that Mario Duarte, head of the Executive Revenue Directorate (DEI, the GOH equivalent of the USG,s Internal Revenue Service) will be moved out of his position effective November 1. Duarte will become the new Director of the National Ports Company. Duarte will be replaced by Jose Manuel Carcamo, previously a former DEI tax lawyer and a partner with Minister Chong in an accounting consultancy. In an October 19 meeting, Minister of Finance Chong explained his reasons for the sweeping changes -- improved efficiency and personnel reform chief among them. Chong expressed continued support for the Treasury technical assistance program to the DEI and encouraged Post to work closely with the new Director. Carcamo is thus far an unknown quantity, but Post is encouraged by Chong,s strong professed support for anti-corruption, institutional reform, and especially for continuing Treasury,s technical assistance efforts. End Summary.

[1](#)2. (C) On October 15, it was reported that Mario Duarte, former head of the Executive Revenue Directorate (DEI, the GOH equivalent of the USG,s Internal Revenue Service), will be moved out of his position and will instead become the new Director of the National Ports Company. This follows the September 30 announcement (ref A) that the DEI would be moved back into the Ministry of Finance (MOF). Post reported at that time that previous tensions between new Minister of Finance William Chong Wong and Duarte made his continued tenure at MOF uncertain. (Note: Chong assumed office on September 1, ref B.) Current Ports Director Fernando Alvarez told Post that he was surprised Duarte received the posting, since there are powerful political and business interests active in the port that dislike him.

[1](#)3. (C) The National Ports Directorship is a relatively high-profile position, and Puerto Cortes has become increasingly important following its security certification by the U.S. Coast Guard (one of the first in the world to be certified) and its role as the anchor of the proposed logistical corridor infrastructure project -- the largest component of Honduras' USD 257 million proposal to the Millennium Challenge Account. Duarte, in his public remarks, indicated that a key focus of his tenure would be full consideration of both the pros and cons of port privatization. In our October 19 meeting, Minister of Finance Chong scoffed at Duarte,s remarks, noting that the issue of port privatization will be decided by Minister of the Presidency Luis Cosenza, Minister for Social Policy Mauro Membreno, and the President, not by Duarte. While the move to Ports could be viewed as plum for Duarte, it appears designed to move Duarte aside as the new Minister consolidates his hold, particularly over the revenue functions within MOF. Of more concern, outgoing Ports Director Alvarez told Post that one reason he chose to resign was increasing pressure from the National Party to squeeze additional funds out of the port to fill party coffers heading into the February 2005 primaries and November 2005 national elections. In our view, Duarte is no more likely to succeed at rebuffing these pressures.

[1](#)4. (C) Duarte will be replaced as of November 1 at MOF by Jose Manuel Carcamo, previously a former DEI tax lawyer and a partner with Minister Chong in an accounting consultancy. Minister for Investment Camilo Atala told Post that most recently Carcamo established a private practice and has been practicing financial law as an advisor to several major banks. EconChief and Treasury representative met with Chong on October 19 to ask about the motives for and likely impacts of the DEI reorganization and leadership change. Chong told us that Carcamo is a legal expert with experience in both the DEI and the private sector (Ernst and Young), but admitted that his lack of administrative experience could be a handicap.<sup>8</sup> Nevertheless, he said, it is easier, in his

opinion, to find a tax expert and teach him to manage than to find a manager and teach him tax law. In contrast, he said, former DEI Director Duarte spent the first year of his tenure getting up to speed on the substance of his portfolio.

15. (C) Asked about the impetus for such a sweeping reorganization effort, Chong pointed to the October 13 Congressional decree incorporating DEI into the MOF and giving DEI four months to restructure and improve its efficiency. Chong said the DEI had become inefficient and poorly organized and in need of re-engineering. In particular, he pointed to the need to reform the auditing arm of DEI, which investigates as few as one case per investigator, can take as long as ten months to complete an audit that a private firm could do in just one month, and too frequently generates no revenues (implying that the auditors are paid-off to close the case.) Anyone involved in corruption, Chong emphasized, will be fired. To motivate those merely underperforming, Chong has proposed performance bonuses in lieu of some portion of formerly guaranteed raises. Chong expressed continued support for the Treasury technical assistance program to the DEI and encouraged Post to work closely with the new Director.

16. (C) Chong also said the need to bring the DEI workforce into the Civil Service system was a key factor in the restructuring. Under the CS law, Chong seeks to define career ladders, position descriptions, and salary scales for DEI employees, to replace the current ad-hoc system. The DEI, he said, is overstaffed and full of political appointees. EconChief noted that other ministries were seeking ways to remove their employees from the civil service system to improve hiring and retention and better protect them from political pressures. (Note: Minister of Trade and Industry Norman Garcia, for example, recently raised this issue with us. He is seeking to follow the Central Bank's personnel model, which is not under the CS system, in order to create a core group of technical experts in trade that can remain in place beyond the next elections to implement CAFTA. End Note.) Chong replied that it was a first class lie to say that CS positions are more politicized than those in the autonomous agencies. He strongly defended the DEI move into Finance as a step to depoliticizing the service.

17. (C) It was also announced that the second Vice Minister position, vacant since Chong left it on September 1 to become Minister, was filled on October 19 by German Donald Dubon Trochez, seconded to MOF from the Honduran Central Bank (BCH). Dubon, an accountant with a master's degree in business financial administration, was formerly the Chief of the Accounting and Controls Division at the BCH. Vice Minister Ralph Oberholzer will remain in his current position as the other Vice Minister, responsible for debt and finance issues.

18. (C) Comment: Carcamo is thus far an unknown quantity, but his previous association with Chong has led some to allege implication in helping tax offenders evade justice. Post has no evidence that this is the case, but will keep a close eye on this as it develops. Post is encouraged by Chong's strong professed support for anti-corruption, institutional reform, and specifically for continuing Treasury's technical assistance efforts to improve collections practices at the DEI. Post will discuss the Treasury program with Director-designate Carcamo at the earliest opportunity, and will continue to monitor any impacts the shake-up could have on that program. End Comment.

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